

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
DODE-00 PM-05 /085 W  
-----074992 101915Z /47

R 101630Z AUG 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 6461  
TREAS DEPT WASHDC  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY PARIS  
USDOCOSOUTH

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USEEC; USOECD; USDOCOSOUTH FOR INTAF; DEPARTMENT PASS FRB

E.O. 11652: N/A  
TAGS: EFIN, IT  
SUBJECT: ITALIAN PERFORMANCE AGAINST IMF AND EC TARGETS AND  
GUIDELINES (SECOND REPORT)

REF: (A) ROME A-251; (B) ROME 11852

1. SUMMARY. RECENT PUBLICATION OF PUBLIC SECTOR BUDGET DATA FOR FIRST HALF 1977 AND RECENT COST-OF-LIVING ESCALATOR INDEX INDICATE ITALIAN ECONOMY ON TRACK AGAINST IMF AND EC TARGETS IN ALL MAJOR RESPECTS. WHERE SPECIFIC QUARTERLY TARGETS WERE SET, PERFORMANCE HAS FULLY MET THOSE TARGETS EXCEPT THE EC FIRST QUARTER TARGET FOR DOMESTIC CREDIT EXPANSION. HOWEVER, REVISED GOI FORECAST OF CENTRAL GOVERNMENT EXPENDITURES WOULD BEACH SUGGESTED CEILING, EVEN THOUGH QUARTERLY BENCHMARKS CONTRIVED BY EMBASSY HAVE BEEN MET OR BETTERED. FOLLOWING SETS OUT MOST RECENT DATA FOR PERFORMANCE AGAINST SIX  
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TARGETS OR GUIDELINES IN IMF AND EC AGREEMENTS. END  
SUMMARY.

2. DOMESTIC CREDIT EXPANSION. AS POINTED OUT IN PREVIOUS REPORTS, THE FIRST QUARTER CEILING ON DOMESTIC CREDIT EXPANSION WAS AGREED TO WITH THE EC AFTER THE FIRST QUARTER WAS ALREADY COMPLETED AND IS THUS SOMEWHAT MEAN-

INGLESS. WITH FIVE MONTHS DATA ON HAND, ITALIAN PERFORMANCE FOR THE FIRST HALF (EC) AND SECOND QUARTER OF THE CALENDAR YEAR (IMF) INDICATE THAT THE SECOND QUARTER CEILINGS WILL BE MET BUT THAT THE CUMULATIVE SIX MONTH EC CEILING COULD BE EXCEEDED BECAUSE OF THE EXCESS OVER THE CEILING IN THE FIRST QUARTER.

TABLE 1

DOMESTIC CREDIT EXPANSION  
(BILLIONS OF LIRE)

|            | I      | II             | CY     | IMF YEAR |
|------------|--------|----------------|--------|----------|
| EC TARGET  | 6,100  | 8,200          | 30,600 |          |
| CUMUL.     |        | 14,300         |        |          |
| IMF TARGET | 8,200  |                | 30,000 |          |
| ACTUAL     | 7,421R | 5,398 (2 MOS)  |        |          |
| CUMUL.     |        | 12,819 (5 MOS) |        |          |

R - REVISED.

3. PUBLIC SECTOR CASH DEFICIT. CURRENT LAW REQUIRES MINISTER OF TREASURY TO PRESENT QUARTERLY REPORTS AND CALENDAR YEAR FORECAST OF CASH OPERATIONS OF CENTRAL GOVERNMENT AND CERTAIN TREASURY OPERATIONS. TREASURY MINISTER STAMMATI PRESENTED MOST RECENT REPORT TO PARLIAMENT JULY 26 WITH ACTUAL DATA THROUGH JUNE AND REVISED FORECAST FOR REMAINDER OF 1977. NET TREASURY DEFICIT (WHICH COM-PRISES CENTRAL GOVERNMENT DEFICIT PLUS SOME NON-BUDGET LIMITED OFFICIAL USE

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TREASURY OPERATIONS AS WELL AS EXPANDED SUPPORT FOR LOCAL GOVERNMENT DEFICITS--SEE REF AIR FOR FULL DEFINITION) IS WELL WITHIN TARGETED CEILING FOR FIRST HALF. OF PARTICULAR NOTE IN THE REVISED FORECAST FOR THE CALENDAR YEAR IS THE SMALLER FORECAST BUDGET DEFICIT, WHICH IS ATTRIBUTABLE MAINLY TO ANOTHER UPWARD REVISION IN FORECASTED REVENUES WHICH ARE NOT COMPLETELY OFFSET BY INCREASED EXPENDITURE FORECAST. HOWEVER, FORECASTED OUTLAYS FOR OTHER TREASURY OPERATION HAVE BEEN REVISED UPWARD AND EXCEED THE 3,500 BILLION LIRE "GUIDELINE" (NOT A TARGET) SET OUT BY THE IMF LETTER OF INTENT. THE CHANGES IN THESE OPERATIONS ARE MAINLY ATTRIBUTABLE TO ESTIMATED INCREASED OUTLAYS SUPPORTING THE AUTONOMOUS AGENCIES AND DIMINISHED REDEPOSITS WITH TREASURY BY THE REGIONS.

TABLE 2

PUBLIC SECTOR CASH DEFICIT  
(BILLIONS OF LIRE)

|                      | I      | II     | CUMUL. | IMF/EC | GOI    | CY1) | CY2) |
|----------------------|--------|--------|--------|--------|--------|------|------|
| BUDGET DEFICIT       | -3,674 | -2,197 | -5,871 | -9,900 | -9,570 |      |      |
| OTHER TREAS OPS. 805 | -3,262 | -2,457 | -3,500 | -3,930 |        |      |      |

TOTAL DEFICIT -2,869 -5,459 -8,328 -13,400 -13,400

LESS: SPECIAL

CR. INST. LOANS 44 88 132 300 400

NET TREASURY -2,825 -5,371 -8,196 -13,100 -13,100

TARGET -8,700 -13,100

1) FORECAST USED BY IMF (SAME AS TREASURY MINISTER'S  
REPORT TO PARLIAMENT ON APRIL 30, 1977).

2) TREASURY MINISTER'S REPORT TO PARLIAMENT ON JULY 26, 1977.

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R 101630Z AUG 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 6462

TREAS DEPT WASHDC

INFO AMEMBASSY BRUSSELS

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4. CENTRAL BANK FINANCING OF TREASURY DEFICIT. THE  
SUGGESTED CEILING BY THE EC ON CENTRAL BANK FINANCING OF  
THE TREASURY DEFICIT OFFERED NO QUARTERLY MEASURE TO JUDGE  
PERFORMANCE. NEVERTHELESS, FIVE MONTHS DATA SHOW A NET  
REDUCTION OF OVER 2,000 BILLION LIRE IN CENTRAL BANK  
HOLDINGS OF TREASURY DEBT. WHILE THIS IS AN ENCOURAGING  
SIGN AT THIS STAGE, THE PERFORMANCE IN THIS AREA IS  
SUBJECT TO WIDE VARIATIONS AND VERY RAPID TURNAROUNDS.  
THIS IS HIGHLIGHTED AT THE PRESENT TIME BY THE PRIVATE  
SECTOR'S EXTREME RELUCTANCE TO HOLD MEDIUM AND LONG TERM  
SECURITIES AND THEIR PREFERENCE FOR SHORT TERM SECURITIES,  
ESPECIALLY THREE-MONTH TREASURY BILLS, WHICH HAVE  
ACCOUNTED FOR THE RECENT INCREASED HOLDING OF PUBLIC  
DEBT IN THE PRIVATE SECOTR.

TABLE 3  
CENTRAL BANK FINANCING OF TREASURY DEFICIT  
(BILLIONS OF LIRE)  
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|                   | I       | II      | CUMUL. | CY    |
|-------------------|---------|---------|--------|-------|
| EC GUIDELINE      |         |         |        | 4,000 |
| EMBASSY BENCHMARK |         |         |        |       |
| ESTIMATE          |         |         |        | 2,650 |
| ACTUAL            | -520    | -1,581  | -2,101 |       |
|                   | (2 MOS) | (5 MOS) |        |       |

5. CENTRAL GOVERNMENT CASH EXPENDITURES. THE CEILING FOR CASH EXPENDITURES CONTAINED IN BOTH EC AND IMF AGREEMENTS IS CONSIDERED A GUIDELINE RATHER THAN A TARGET AND NO QUARTERLY BENCHMARKS TO MEASURE PERFORMANCE WERE SET OUT IN EITHER AGREEMENT. OF SIGNIFICANCE IN TREASMIN'S JULY REPORT TO PARLIAMENT IS THE UPWARD REVISION OF FORECAST CASH EXPENDITURES, GOING BEYOND BY 700 BILLION LIRE THE GUIDELINE ESTABLISHED IN THE TWO AGREEMENTS. IN AN EXPLANATORY NOTE IN THE REPORT TO PARLIAMENT, IT IS POINTED OUT THAT THE SUGGESTED CEILING FOR CENTRAL GOVERNMENT CASH EXPENDITURES WAS SET IN THE CONTEXT OF ESTABLISHING A TARGET FOR THE NET TREASURY DEFICIT. SINCE EXPECTED REVENUES HAD (AGAIN) BEEN REVISED UPWARD, THIS PERMITTED SOMEWHAT MORE LATITUDE IN COVERING NECESSARY EXPENDITURES. NEVERTHELESS, IT WAS NOTED THAT THERE WAS STILL A GAP OF 1,000 BILLION LIRE IN THE "ENLARGED DEFICIT" TARGET WHICH MUST BE COVERED BY EITHER NEW REVENUES OR REDUCED EXPENDITURES. AS A FOOTNOTE TO THIS FORECAST BREACHING OF THE CEILING, IT SHOULD BE NOTED THAT PREVIOUS CENTRAL GOVERNMENT CASH EXPENDITURES FORECASTS WERE, IN FACT, BELOW THE IMF/EC GUIDELINE (E.G., 54,800 BILLION LIRE IN APRIL 30 FORECAST). AS EXPLAINED IN REFAIR, NOTWITHSTANDING THE LACK OF RELIABLE METHODOLOGY TO ESTIMATE QUARTERLY PERFORMANCE, THE EMBASSY HAS CONTRIVED ITS OWN QUARTERLY BENCHMARKS FOR CENTRAL LIMITED OFFICIAL USE

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GOVERNMENT CASH EXPENDITURES. FACT THAT CUMULATIVE GOVERNMENT EXPENDITURES HAVE BEEN WITHIN THESE BENCHMARKS SHOULD BE VIEWED WITH GREAT CAUTION, GIVEN THE HIGHLY TENTATIVE CHARACTER OF THE BENCHMARK.

TABLE 4

CENTRAL GOVERNMENT CASH EXPENDITURES  
(BILLIONS OF LIRE)

|                   | I      | II     | CUMUL. | CY | GOI1)  |
|-------------------|--------|--------|--------|----|--------|
| IMF/EC GUIDELINE  |        |        |        |    | 55,350 |
| EMBASSY BENCHMARK |        |        |        |    |        |
| ESTIMATES         | 14,340 | 12,010 | 26,350 |    | 55,350 |
| ACTUAL (TREAS)    | 15,226 | 10,949 | 26,175 |    | 56,050 |

1) REVISED FORECAST CONTAINED IN TREASMIN REPORT TO  
PARLIAMENT ON JULY 26,1977.

6. COST-OF-LIVING ESCALATOR INDEX. WHILE PERFORMANCE IN THE ABOVE-MENTIONED CATEGORIES HAS ALSO BEEN ENCOURAGING, PRICE PERFORMANCE HAS IMPROVED EVEN MORE RAPIDLY THAN ANTICIPATED JUDGING FROM THE QUARTERLY DATA AVAILABLE. THE INDEX ROSE BY ONLY 3.95 PERCENT IN THE FIRST TARGET PERIOD COMPARED TO THE TARGET MAXIMUM RATE OF 5 PERCENT. IN THE SECOND QUARTERLY TARGET PERIOD, THE INDEX INCREASED BY ONLY 3.54 PERCENT AGAINST A TARGET MAXIMUM OF 4.0 PERCENT. THUS, THERE ARE NOW TWO POINTS OF MARGIN AVAILABLE FOR ANY SLIPPAGE IN PRICE PERFORMANCE IN SUCCEEDING THREE QUARTERS.

TABLE 5

COST OF LIVING ESCALATOR INDEX  
(AUGUST-OCTOBER 1974 EQUALS 100)

|             | TARGET | (POINTS) | ACTUAL | (POINTS) |
|-------------|--------|----------|--------|----------|
| OCT76-JAN77 | 143    | (BASE)   | 143    | 9        |
| FEB-APR77   | 150    | 7        | 149    | 6        |
| MAY-JUL77   | 156    | 6        | 154    | 5        |

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INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
DODE-00 PM-05 /085 W

-----075176 101914Z /47

R 101630Z AUG 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 6463  
TREAS DEPT WASHDC  
INFO AMEMBASSY BRUSSELS  
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7. CURRENT ACCOUNT OF BALANCE OF PAYMENTS. NO NEW DATA IS AVAILABLE ON CURRENT ACCOUNT ON "ECONOMIC" BASIS SINCE THAT REPORTED REPAIR. HOWEVER, IT MAY BE WORTH POINTING OUT THAT CUSTOMS DATA THROUGH JUNE SHOW A STRONGER IMPROVEMENT IN TRADE ACCOUNT THAN EXPECTED WITH SIX MONTHS TRADE DEFICIT CONSIDERABLY BELOW THE EXPECTED LEVEL. AT THE SAME TIME, THE SECOND QUARTER IS ALWAYS SEASONALLY STRONG IN SERVICES AND ALL EVIDENCE SHORT OF ACTUAL DATA POINTS TO A STRONG SHOWING IN THIS QUARTER. CONSEQUENTLY, IMPROVEMENT IN THE CURRENT ACCOUNT APPEARS TO BE WELL ON TRACK AND PROBABLY AHEAD OF TARGET EXPECTATIONS.  
HOLMES

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## Message Attributes

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**Disposition Date:** 22 May 2009  
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**TAGS:** EFIN, IT  
**To:** STATE TRSY  
**Type:** TE  
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